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BOEING AIRPLANE COMPANY

and SUBSIDIARY COMPANIES



Report to Stockholders

Year Ended December 31, 1940

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Report to Stockholders
of the Board of Directors of the
Company

BOEING AIRPLANE COMPANY

Notice of Annual Meeting of Stockholders

APRIL 15, 1941

To the Stockholders:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Boeing Airplane Company will be held on Tuesday, April 15, 1941, at 11:00 o'clock A.M., at the office of the Company at 200 West Michigan Street, Seattle, Washington, for the purpose of electing a Board of Directors and for the transaction of such other business as may properly come before the meeting.

Pursuant to the By-Laws, the Board of Directors has fixed the close of business March 21, 1941, as the record date for the determination of the holders of the stock of the Company entitled to vote at the meeting.

So far as the management is at present aware, no business will come before the meeting other than the election of Directors.

HAROLD E. BOWMAN,
Secretary.

Seattle, Washington,
March 21, 1941.

If you cannot be personally present at the meeting, it is suggested by the management that you execute and return the enclosed Proxy in favor of P.G. JOHNSON, DARRAH CORBET and DIETRICH SCHMITZ, being the President and two other directors of the Company.

BOEING AIRPLANE COMPANY

ANNUAL MEETING OF STOCKHOLDERS APRIL 15, 1941

Proxy Statement

Pursuant to the regulations of the Securities and Exchange Commission the following statement is made in connection with the solicitation of the enclosed proxy.

At the date of this statement the only business which the management intends to present or knows that others will present at the annual meeting to be held April 15, 1941, is the election of nine Directors.

It is expected that the proxies will be voted in favor of the persons named below for the office of Director of the Company, all of said persons being Directors of the Company at the present time. (The data as to amount of stock owned by each nominee is given as of March 1, 1941.)

P. G. JOHNSON is President of the Company and President of Boeing Aircraft Company and is the beneficial owner of 2500 shares of stock of the Company.

CLAIRE L. EGTVEDT is Chairman of the Company and Chairman of Boeing Aircraft Company and is the beneficial owner of 5833 shares of stock of the Company.

WILLIAM M. ALLEN is a member of the firm of Todd, Holman, Sprague & Allen, General Counsel for the Company and for Boeing Aircraft Company and is the beneficial owner of 205 shares of stock of the Company.

HAROLD E. BOWMAN is Secretary and Treasurer of the Company and Secretary and Treasurer of Boeing Aircraft Company and is not the beneficial owner of any stock of the Company.

DARRAH CORBET is President of Smith Cannery Machines Company and is the beneficial owner of 100 shares of stock of the Company.

FRED P. LAUDAN is Vice-President of Boeing Aircraft Company and is the beneficial owner of 319 shares of stock of the Company.

ROBERT J. MINSHALL is Vice-President of Boeing Aircraft Company and is the beneficial owner of 25 shares of stock of the Company.

PAUL PIGOTT is President of Pacific Car & Foundry Company and is the beneficial owner of 100 shares of stock of the Company.

DIETRICH SCHMITZ is President of Washington Mutual Savings Bank and is the beneficial owner of 150 shares of stock of the Company.

P. G. Johnson received during the last fiscal year as President and General Manager of Boeing Aircraft Company, \$20,000; Claire L. Egtvedt received during the last fiscal year as Chairman of Boeing Aircraft Company, \$20,000; Robert J. Minshall received during such fiscal year as Vice-President of Boeing Aircraft Company, \$12,000. The aggregate amount of remuneration paid during the last fiscal year by the Company and its subsidiaries to the directors and officers of the Company (not including Assistant Secretaries and Assistant Treasurers) was \$92,355. The firm of Todd, Holman, Sprague & Allen, of which William M. Allen is a member, received as general counsel for services rendered the Company during the last fiscal year the sum of \$18,000, and received as general counsel for services rendered Boeing Aircraft Company during such fiscal year the sum of \$18,750.

The enclosed proxy is solicited by the present management of the Company. The proxy may be revoked by the stockholder. No compensation is being paid or will be paid for soliciting proxies, but all expense of soliciting proxies for this annual meeting, including clerical work, printing and postage, will be paid by the Company.

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ANNUAL REPORT

To the Stockholders of Boeing Airplane Company:

THE annual report for the year 1940 covering the activities of Boeing Airplane Company and its subsidiary units is submitted herewith.

The Boeing Airplane Company embraces Boeing Aircraft Company, a wholly-owned subsidiary located at Seattle, Washington; Boeing Aircraft of Canada Limited, a wholly-owned subsidiary of Boeing Aircraft Company, located at Vancouver, British Columbia, and the Stearman Division of Boeing Airplane Company, located at Wichita, Kansas.

ACCOMPLISHMENTS

The Boeing Airplane Company recognizes in full its obligations and responsibilities under the National Defense program. It has been awarded a substantial share of the manufacture of aircraft, particularly in the field of fast, long range, four-engine bombardment types which the Company at Seattle has pioneered, and in the field of primary training planes produced at Wichita.

From the plants at Seattle, delivery was completed in 1940 of the series of Stratoliners to commercial transport lines. In 1939, Pan American Airways exercised options for six additional Clipper type flying boats for delivery in 1941 which are now under construction at Seattle and constitute the only commercial work in the Companies' plants.

Boeing Aircraft of Canada Limited has contracted with the Canadian Government for the manufacture of two-engine flying boats and a substantial quantity of airplane parts.

Vastly expanded plant facilities are being added at all three locations, with new machinery and equipment coordinated for modern manufacturing methods. Even though new facilities and equipment are not as yet completed and much of the effort during the year has necessarily been devoted to securing and preparing for this new business, the aircraft delivered during 1940 exceeded the total deliveries during the preceding three years. During the year aircraft of the value of \$14,754,875. were delivered to the United States Army, \$718,355. to the United States Navy, and \$3,917,488. to other customers.

BUSINESS IN HAND

Unfilled orders under contract to the Company's units in the United States at the close of 1940 amounted to a total value of \$196,522,446., an increase of \$174,392,821. over unfilled orders at the close of the year 1939. Federal Government regulations prohibit the publishing of further detailed information.

From information at hand on the National Defense program, it is anticipated that additional new business will be forthcoming during 1941, for delivery in 1942 and 1943.

MANAGEMENT

Satisfactory progress has been made toward the management objectives set forth in the Annual Report for 1939. The production rate has been substantially increased with further improvement expected. Contemplated expansion in Engineering, Research and Aerodynamics has been effected in 1940 and has rounded out a well balanced and coordinated manufacturing enterprise.

During 1940 Boeing Aircraft Company concluded a new agreement with Aeronautical Mechanics Local Union No. 751 and the International Association of Machinists, affiliated with the American Federation of Labor. This agreement became effective August 1, 1940, and continues to July 1, 1942. Either party may, at its option, initiate negotiations for the adjustment of wage rates, overtime rates and vacation privileges as of July 1, 1941.

PERSONNEL

At Seattle the number of employees totaled 8420 at the close of

1940, an increase of 2449 over the close of 1939; at Wichita there were 1762 employees at the year's close, an increase of 1258; and at Vancouver, the total was 704, an increase during the year of 388 employees.

It is anticipated that at the peak of employment in 1941, the Company will have in excess of 20,000 employees in all divisions.

PLANT FACILITIES

The major expansion of plant facilities has occurred at Boeing Aircraft Company, Seattle, in the further development of Plant No. 2 which was originally built in 1936 and 1937. During 1940 the Company entered into a contract with Great Britain to produce a quantity of twin-engine bombers. To meet the requirements of this additional business a construction contract was let on May 24, 1940, for 667,000 square feet gross additional factory space. The plans provided for increased facilities for final assembly, sub-assembly, raw material storage, power house equipment, employees' services and necessary fencing and paving. This work has been substantially completed and the added area with the new equipment therein is being utilized in active production.

In view of the accelerated National Defense program, it had been anticipated that sufficient new business would be forthcoming to warrant the further development of Plant No. 2 into a fully integrated aircraft factory in one unit. In the fall of 1940 the additional business materialized and on October 15, 1940, a construction contract was awarded providing for further assembly and warehouse space, storage space for purchased parts and inflammable materials, machine and tooling shops, and for increased employees' facilities. New or additional buildings to house the executive offices, the engineering and drafting work, production planning and other activities currently located at Plant No. 1 were designed into the project. A total area of approximately 974,000 square feet gross was embraced in this development with 140 days allocated for completion. It is anticipated this schedule will be met, giving a total area at Plant No. 2 of approximately 1,776,000 square feet, and making the total area of the three plants in Seattle approximately 2,344,500 square feet.

The Stearman Division of Boeing Airplane Company at Wichita, Kansas, was awarded contracts to manufacture primary training

planes in quantity and to provide therefore, the Company constructed enlargements to existing buildings early in 1940 which added approximately 142,000 square feet of floor area.

With the receipt of additional orders by the Boeing Aircraft Company at Seattle for Flying Fortresses, it was determined to manufacture certain of the parts at Wichita. On October 16, 1940, a construction contract was awarded at Wichita for new facilities to the extent of 420,000 square feet gross to be completed in 140 days. The plans called for the erection of new structures, on land purchased adjacent to the existing Stearman plant, suitable for manufacturing shops and warehouses similar in design and arrangement to the new facilities in Seattle. Completion in the scheduled time is anticipated, with partial areas being occupied as finished, making a total of approximately 740,000 square feet of floor area at Wichita.

At both Seattle and Wichita, there has been a comparable equipment procurement program. To parallel the construction of new buildings, additional machine tools and necessary equipment have been purchased and are being installed and placed in production as fast as delivered.

At Vancouver, the facilities of Boeing Aircraft of Canada Limited will be substantially increased by a new plant of some 200,000 square feet of floor area, being built and equipped by the Canadian Government and leased to the Company for the production of flying boats.

FINANCING

At a special stockholders' meeting held December 29, 1939, approval was given to increase the capitalization of the Company from 800,000 shares to 1,250,000 shares, and in the 1939 annual report it was stated that the directors had under consideration an offer to stockholders of rights to subscribe to additional stock. This offering was made in May, 1940, on the basis of one additional share for each two shares held, at a price of \$16 per share. Of the 360,496 shares offered to stockholders, 272,248 were issued upon the exercise of stockholders' "rights" and the balance of 88,248 shares was taken up by the underwriters. Net proceeds after payment of all expenses incident to the issue amounted to \$5,392,547.25, and were used substantially as follows:

Repayment of secured bank loan.....	\$4,740,000.00
Additional working capital.....	652,547.25
	<hr/>
	\$5,392,547.25

The secured bank loan which was repaid in full was guaranteed by the Company and mortgages had been placed upon the plants, machinery, equipment, and certain other properties of the Company and its subsidiary, Boeing Aircraft Company, and the proceeds of aircraft contracts had been assigned. There are now no encumbrances upon any of the properties, plants, machinery, or equipment of the Companies.

FINANCING OF EMERGENCY PLANT FACILITIES

In order to assist in expediting the National Defense program, Boeing Airplane Company and Boeing Aircraft Company, in October, 1940, entered into contracts with the United States Government providing for the construction and acquisition by the companies of emergency plant facilities. Boeing Aircraft Company agreed to construct and acquire additional plant facilities consisting of buildings and equipment at Seattle, at an estimated cost of approximately \$7,625,000.00, and Boeing Airplane Company, through its Stearman Division, agreed to acquire and construct additional facilities at Wichita, Kansas, at an estimated cost of approximately \$3,625,000.00. These facilities are more fully described in the second, fourth and fifth paragraphs under the title, "Plant Facilities." In these contracts, the estimated completion dates of which are July and June, respectively, of 1941, the Government agrees to reimburse the companies for the cost of the facilities in sixty equal monthly installments commencing with the completion of the facilities. The contracts provide that upon termination the companies shall have the option of retaining the facilities, upon payment of the cost of the facilities less a fixed depreciation or upon payment of an agreed price.

In order to finance the acquisition and construction of these facilities the companies entered into banking agreements whereby the companies may borrow the amounts expended for the emergency plant facilities up to a total of \$8,000,000.00 by Boeing Aircraft Company and \$4,000,000.00 by Boeing Airplane Company. Repayment of the principal of the bank loan is made by assignment of the

proceeds of the emergency plant facilities contracts. At December 31, 1940, the companies had expended \$3,033,461.35 for such emergency plant facilities against which borrowings had been made in the total amount of \$2,240,445.62.

FINANCIAL STATEMENTS

Operations of the domestic companies resulted in a net profit, after provision for income and excess profits taxes, of \$374,655.29, as shown by the consolidated profit and loss statement.

A survey of the "Clipper" project indicates that their cost will substantially exceed their sale price, although the probable amount thereof cannot be accurately determined until after the first one has been test flown and licensed by the Civil Aeronautics Bureau. The profit and loss statement has been charged with an amount of \$640,000.00 representing the proportion of the total estimated excess cost on six "Clipper" flying boats applicable to the period ended December 31, 1940. A substantial portion of the excess cost has been occasioned by the demands made upon the personnel and facilities of the Company by the accelerated National Defense program, and is, in the opinion of the management, properly recoverable as a cost of National Defense contracts. However, no transfer of such excess costs has yet been made.

Wage rate increases approximating eighteen per cent resulted from the new Union Agreement previously mentioned. This increased labor cost is reflected in the added costs of the "Clippers."

As of January 1, 1940, accounting procedure was changed as outlined in Note 1 of the Notes to Consolidated Financial Statements. This change has had the desirable effect of having the Profit and Loss statement reflect the true cost of a project in the same period in which the income therefrom is taken up. The inventory value of any project is not, however, permitted to exceed its proportionate sales value.

Attention is invited to substantial advance payments on contracts made by both the United States and Great Britain.

CANADIAN SUBSIDIARY STATEMENTS

In previous years the consolidated financial statements have

included the balance sheet and profit and loss statement of the Canadian subsidiary, converted to United States' dollars. Due to exchange restrictions, it appeared desirable to change this procedure and consequently there is shown separately the balance sheet of the Canadian subsidiary in Canadian dollars. On the consolidated balance sheet the investment in, and advance to, the Canadian subsidiary are shown at their underlying book value in U. S. dollars as of December 31, 1939, as adjusted. Operations of the Canadian subsidiary resulted in a net profit of \$10,347.06 (Canadian) for the current year. No portion of the net profits of the Canadian subsidiary is reflected in the consolidated statements of the domestic companies.

By Order of the Board of Directors.

P. G. JOHNSON,
President.

March 8, 1941.

BOEING AIRPLANE COMPANY
(EXCLUDING CANADA)

CONSOLIDATED

December

ASSETS

CURRENT ASSETS:

Cash		\$11,330,223.92
Cash—Unexpended balance of payments advanced by the United States on a particular contract, restricted for use on and securing performance of such contract.....		685,329.98
Accounts Receivable:		
Trade Accounts Receivable, including \$645,534.14 to be deposited in restricted cash account upon receipt thereof..	\$2,642,061.21	
Sundry Accounts Receivable.....	34,886.91	2,676,948.12
Advances to Sub-contractors.....		201,897.00
Inventories:		
Contracts and Work in Process, at the lower of cost or estimated proportionate sales value (Note 1):		
Work in Process on Certain Sales Contracts, including unprocessed materials, title to a substantial portion of which has passed to vendee or against which vendee has a lien—less progress payments of \$6,921,223.20	\$2,244,164.15	
Other Work in Process—less reserve of \$640,000.00....	4,313,598.89	
Purchased Materials and Parts, at substantially the lower of cost or market.....	3,063,971.83	9,621,734.87
TOTAL CURRENT ASSETS.....		\$24,516,133.89

INVESTMENTS AND OTHER ASSETS:

Investment In and Advances to Boeing Aircraft of Canada Limited, not consolidated (Note 2).....	\$ 279,905.19	
Deposits with Mutual Insurance Companies.....	39,747.50	
Sundry Stocks	4,640.00	324,292.69

EXPENDITURES UNDER EMERGENCY PLANT FACILITIES CONTRACTS (Note 3).....

3,033,461.35

FIXED ASSETS:

Property and Equipment at Cost, except as to certain property and equipment of Stearman Division in the amount of \$116,441.76 which are at reduced values:		
Land and Buildings.....	\$4,654,970.02	
Machinery, Tools and Equipment.....	1,716,930.69	
	\$6,371,900.71	
Less—Reserve for Depreciation.....	898,780.24	5,473,120.47

DEFERRED CHARGES:

Deferred Expansion Expenses (Note 4).....	\$ 204,716.48	
Unexpired Insurance, License Fee, Rent, etc.....	117,160.47	321,876.95
		<u>\$33,668,885.35</u>

NOTE: The above consolidated balance sheet is subject to the

AND SUBSIDIARY COMPANY
 DIAN SUBSIDIARY)

BALANCE SHEET

31, 1940

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

Accounts Payable and Accrued Wages, Taxes, etc., including \$762,624.44 which may be paid with restricted cash:		
Accounts Payable—Trade	\$2,756,991.46	
Accrued Wages, Taxes, etc.....	1,114,813.86	\$ 3,871,805.32
Provision for Federal and State Income Taxes.....		188,800.65
Provision for Contract Guaranty Replacement.....		81,500.00
Advances on Sales Contracts.....		17,670,313.10
TOTAL CURRENT LIABILITIES.....		\$21,812,419.07

NOTES PAYABLE TO BANK—Emergency Plant Facilities (Note 3)	2,240,445.62
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CAPITAL STOCK AND SURPLUS:

Capital Stock:

Authorized 1,250,000 shares of \$5.00 par value	
Issued and Outstanding 1,081,673 $\frac{3}{4}$ shares.....	\$5,408,368.75
To be issued for shares of Capital Stock of United Aircraft & Transport Corporation upon presentation for exchange—780 $\frac{1}{4}$ shares.....	3,901.25

	\$5,412,270.00
Paid-In Surplus	4,507,270.96
	\$9,919,540.96

Earned Surplus (Deficit)—Since September 30, 1939 (after elimination of earned surplus (deficit) at September 30, 1939, by transfer to paid-in surplus in an amount of \$3,471,686.29)		
	303,520.30	9,616,020.66

\$33,668,885.35

notes to consolidated financial statements on a succeeding page.

H. E. BOWMAN, Treasurer.

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY
(EXCLUDING CANADIAN SUBSIDIARY)

Consolidated Profit and Loss Statement

Year ended December 31, 1940

GROSS SALES, LESS DISCOUNTS, RETURNS AND ALLOWANCES.....		\$19,390,718.32
COST OF SALES.....	\$17,859,397.31	
PROVISION TO REDUCE INVENTORY OF FLYING BOATS TO ESTIMATED PRO- PORTIONATE SALES VALUE.....	640,000.00	
PROVISION FOR CONTRACT GUARANTY REPLACEMENT	81,500.00	
SALES AND SERVICE EXPENSES.....	83,499.02	
GENERAL AND ADMINISTRATIVE EX- PENSES	34,817.23	
DEPRECIATION	159,758.66	18,858,972.22
OPERATING PROFIT		\$ 531,746.10
OTHER INCOME:		
Discount on Purchases.....	\$ 78,079.91	
Royalty and License Fees.....	10,607.37	
Sundry	12,014.23	100,701.51
		\$ 632,447.61
INCOME DEDUCTIONS:		
Interest Expense	\$ 68,568.11	
Sundry	412.68	68,980.79
NET INCOME—Before Income Taxes....		\$ 563,466.82
PROVISION FOR FEDERAL AND STATE INCOME TAXES		188,811.53
NET PROFIT FOR YEAR (Note 1)		<u>\$ 374,655.29</u>

NOTE: The above consolidated profit and loss statement is subject to the notes to consolidated financial statements on a succeeding page.

H. E. BOWMAN, *Treasurer.*

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY
(EXCLUDING CANADIAN SUBSIDIARY)

Consolidated Earned Surplus (Deficit) Account

Year ended December 31, 1940

DEFICIT—January 1, 1940.....	\$ 677,966.92
ADD:	
Additional Federal Income Tax for year 1938.....	208.67
	<u>\$ 678,175.59</u>
DEDUCT:	
Net Profit for year ended December 31, 1940.....	374,655.29
DEFICIT—December 31, 1940.....	<u>\$ 303,520.30</u>

Consolidated Paid-In Surplus Account

Year ended December 31, 1940

BALANCE—January 1, 1940.....	\$ 917,203.71
ADD:	
Excess over par of amount received upon issuance of 360,496 shares of Capital Stock, less expenses in connection there- with \$375,388.75	3,590,067.25
BALANCE—December 31, 1940.....	<u>\$4,507,270.96</u>

NOTE: The above consolidated surplus accounts are subject to the notes to consolidated financial statements on the following page.

H. E. BOWMAN, *Treasurer.*

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY
(EXCLUDING CANADIAN SUBSIDIARY)

Notes to Consolidated Financial Statements

December 31, 1940

NOTE 1: The inventories of work in process at December 31, 1940 include certain prorated general and administrative and engineering research expenses in the amount of approximately \$163,000.00, which amount was computed after giving effect to the inventory reserve provision. In former years such expenses were charged directly to profit and loss and this change in accounting principles results in the net profit of the companies for the year 1940, before income taxes, being \$163,000.00 more than it would have been if the former accounting policies had been continued in the current period.

Other Work in Progress includes six additional flying boats being constructed under an option to an original contract for six flying boats completed in 1939. The development cost of this project was charged off prior to 1940 and no portion deferred as applying to the option. At December 31, 1940, the additional six flying boats were reduced to estimated proportionate sales value by means of a reserve of \$640,000.00. It is estimated that the Company may sustain a further loss subsequent to December 31, 1940, in the approximate amount of \$500,000.00 in the further performance of the option contract.

NOTE 2: The amount of the investment in and advances to Boeing Aircraft of Canada Limited, a wholly-owned subsidiary, is carried at less than underlying book value. For the year 1940 no income from or of the Canadian Subsidiary is included in the consolidated financial statements.

NOTE 3: Under the terms of contracts entered into by the Company and its Subsidiary with the United States, for the acquisition, construction and installation of Emergency Plant Facilities, the Government has agreed to reimburse the Company and its Subsidiary for such expenditures over a period of sixty consecutive calendar months following completion. By the terms of the contracts, reimbursements are limited to \$3,625,765.22 and \$7,627,032.13 respectively, plus interest during the construction period on funds expended. In connection therewith the Company and its Subsidiary have entered into agreements with The National City Bank of New York wherein the Bank agrees to loan the amounts expended but not in excess of \$4,000,000.00 and \$3,000,000.00 to the Company and its Subsidiary respectively. The agreements provide that the Bank shall have recourse for the payment of the principal of all such loans solely to the payments which are to be made by the Government under the terms of the Emergency Plant Facilities contracts, which have been assigned to the Bank, except in case of default by the Company or its Subsidiary in connection with the performance of the contracts with the Government or the agreements with the Bank. Notes covering loans by the Bank under the loan agreements are payable on or before July 1, 1946.

NOTE 4: In connection with the expansion program of the Company's Subsidiary certain expenses have been incurred in advance of production on the contracts to which they relate. Such expenses have been deferred at December 31, 1940 to be charged to costs of the contracts as they proceed.

ACCOUNTANTS' REPORT

To the Stockholders, Boeing Airplane Company:

We have examined the consolidated balance sheet of Boeing Airplane Company and Subsidiary Company (excluding Canadian Subsidiary) as of December 31, 1940, and the consolidated statement of profit and loss and surplus accounts for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods, at times, and to the extent we deemed appropriate.

In connection with the flying boat project, provision has been made to reduce the inventory to estimated proportionate sales value. Further loss in connection with this project subsequent to December 31, 1940, is not reflected in the consolidated financial statements in conformity with the practice generally followed by the Company. Reference is made to Note 1 of the Notes to Consolidated Financial Statements.

Following adoption of a change in accounting policies, certain general, administrative and research expenses were charged to work in process during the year 1940 which expenses had been charged directly to profit and loss in prior years. As a result thereof the net values of work-in-process inventories at December 31, 1940, and the net income before income taxes for the year then ended are approximately \$163,000.00 more than they would have been had the former accounting principles been maintained in the current year. The principle of consolidation of the Companies was changed for the year 1940 in that the Canadian Subsidiary, which had been included in the consolidated financial statements of prior years, is excluded therefrom in the current year.

In our opinion, the accompanying consolidated balance sheet and related statement of profit and loss and surplus accounts present fairly the consolidated position of Boeing Airplane Company and Subsidiary Company (excluding Canadian Subsidiary) at December 31, 1940, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles, which principles have been applied on a basis consistent with that of the preceding year except as stated in the immediately preceding paragraph.

ALLEN R. SMART & CO.,
Certified Public Accountants.

Seattle, Washington,
March 6, 1941.

BOEING AIRCRAFT OF CANADA LIMITED

CONDENSED BALANCE SHEET

as at DECEMBER 31st, 1940
(In Canadian Dollars)

ASSETS

Cash in Bank and on Hand.....	\$ 1,130.53
Notes and Accounts Receivable—Net.....	235,689.07
Expended for Canadian Government re Construc- tion of Buildings and Equipment.....	64,442.78
Inventories:	
Arising from Contracts with the Canadian Gov- ernment (sale prices of which have not been fixed), title to substantially all of which has passed to the Government—at Cost:	
Finished Goods—delivered	\$286,677.17
Work in Process and Raw Materials.....	260,353.79
	<u>\$547,030.96</u>
Less Progress Payments.....	432,613.81
	<u>\$114,417.15</u>
Other—at lower of Cost or Market.....	173,848.52
	<u>288,265.67</u>
TOTAL CURRENT ASSETS (Note 1)....	\$589,528.05
Fixed Assets, less Reserve for Depreciation.....	184,638.27
Deferred Charges	13,106.07
TOTAL ASSETS	<u><u>\$787,272.39</u></u>

LIABILITIES

Notes Payable to Bank (Note 1).....	\$242,000.00
Accounts Payable and Accrued Expenses.....	164,036.59
Reserve for Income and Profits Taxes.....	13,114.72
TOTAL CURRENT LIABILITIES.....	<u>\$419,151.31</u>
Advances from U. S. Affiliated Companies.....	129,304.42
Capital Stock:	
Preferred 6% Cumulative Redeemable (Note 2) ..	\$683,000.00
Common Stock—No Par Value.....	10,046.20
	693,046.20
Surplus (Deficit) as at December 31st, 1939.....	\$494,093.95*
Add Adjustment for prior years—Net.....	29,517.35
Net Profit for the year.....	10,347.06
	<u>454,229.54*</u>
TOTAL LIABILITIES	<u><u>\$787,272.39</u></u>

*Italics * denotes Red Figures.*

NOTE 1—Proceeds from certain Contracts, including Receivables of \$169,085.97, are pledged to secure Notes Payable to Bank.

NOTE 2—Dividends on the 6% Cumulative Redeemable Preference Shares are in arrears in the amount of \$231,730.00.

H. E. BOWMAN, *Treasurer Boeing Airplane Company.*

To the Shareholders, Boeing Aircraft of Canada Limited:

We have examined the Condensed Balance Sheet of Boeing Aircraft of Canada Limited as at December 31st, 1940, and have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods, at times and to the extent we deemed appropriate.

In our opinion, the accompanying Condensed Balance Sheet presents fairly the position of Boeing Aircraft of Canada Limited as at December 31st, 1940, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants.

Vancouver, B. C.,
February 14th, 1941.

BOARD OF DIRECTORS

WILLIAM M. ALLEN
Of Messrs. Todd, Holman, Sprague
& Allen

HAROLD E. BOWMAN
Secretary and Treasurer
Boeing Aircraft Company

DARRAH CORBET
Seattle, Washington

CLAIRE L. EGTVEDT
Chairman
Boeing Aircraft Company

FRED P. LAUDAN
Vice-President
Boeing Aircraft Company

ROBERT J. MINSHALL
Vice-President
Boeing Aircraft Company

PAUL PIGOTT
Seattle, Washington

DIETRICH SCHMITZ
Seattle, Washington

P. G. JOHNSON
President and General Manager
Boeing Aircraft Company

OFFICERS

P. G. JOHNSON.....	<i>President</i>
CLAIRE L. EGTVEDT.....	<i>Chairman</i>
J. EARL SCHAEFER.....	<i>Vice-President</i>
JAMES P. MURRAY.....	<i>Vice-President</i>
HAROLD E. BOWMAN.....	<i>Secretary and Treasurer</i>

General Counsel
TODD, HOLMAN, SPRAGUE & ALLEN

General Auditors
ALLEN R. SMART & CO.

Transfer Agent
CITY BANK FARMERS TRUST COMPANY, NEW YORK

Registrar
THE NATIONAL CITY BANK OF NEW YORK, NEW YORK



